

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

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FM AMCONSUL BELIZE

TO SECSTATE WASHDC 3466

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E. O. -21652: N/A

TAGS: EIND, EFIN

SUBJECT: FOREIGN INVESTMENT CLIMATE

REF: STATE 053993

1. FOR A VARIETY OF REASONS THE CLIMATE FOR DIRECT FOREIGN INVESTMENT IN BELIZE IS POOR. THIS COUNTRY IS A GRAVEYARD OF POORLY CONCEIVED, UNDER CAPITALIZED PROJECTS, WHICH FAILED. THE REASONS FOR THESE FAILURES SHOULD BECOME CLEAR AS WE ANSWER THE QUESTIONS IN THE ORDER ASKED IN THE REFTEL.

A. GOVERNMENT'S ATTITUDE TOWARD DFI, THE PRIVATE SECTOR AND THE DEVELOPMENT PROCESS AS A WHOLE, IS EQUIVOCAL. DUE TO THE COMPLETE LACK OF PLANNING, ECONOMIC DECISIONS ARE MADE ON A DAY TO DAY BASIS. ONE HAS THE IMPRESSION THAT EVEN THOUGH THE GOB IS 'FOR' DEVELOPMENT THAT IT IS AFRAID OF THE SOCIAL, ECONOMIC AND POLITICAL RISKS THE PROCESS IMPLIES.

B. THE MAJOR INCENTIVE THE GOB HAS FOR DFI IS THE DEVELOPMENT CONCESSION. AN INVESTOR CAN OBTAIN A HOLIDAY ON THE PAYMENT OF CUSTOMS DUTIES AND CORPORATE TAX FOR SPECIFIED PERIODS. THE TERMS ARE NEGOTIABLE BETWEEN THE GOB AND THE INVESTOR.

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C. BELIZE USES THE COMMONWEALTH PREFERENTIAL TARIFF WHICH DOUBLES THE TARIFF ON ITEMS MANUFACTURED OUTSIDE THE COMMONWEALTH. OFTEN, HOWEVER, THE PROXIMITY OF THE U. S., WITH ITS NATURAL TRANSPORT AND SERVICING ADVANTAGES, OVERCOMES THE TARIFF DIFFERENTIAL.

D. THE ONE POLICY WHICH HAS MOST SHARPLY AFFECTED THE DECISION OF FOREIGN FIRMS TO INVEST IS THE RECENTLY PASSED ALIEN LANDHOLDING ACT. THIS ACT REQUIRED A FOREIGNER TO OBTAIN A LICENSE FROM THE MINISTER WITH RESPONSIBILITY FOR LANDS BEFORE HE CAN BUY LAND IN EXCESS OF ONE HALF ACRE IN URBAN AREAS AND TEN ACRES IN RURAL AREAS. THE LICENSE STATES THE TERMS FOR THE DEVELOPMENT OF THE LAND AND IF THE MINISTER BELIEVES THE TERMS HAVE BEEN VIOLATED, THEN THE LAND AND EVERYTHING ON IT ARE FORFEIT TO THE CROWN ON NINETY DAYS NOTICE.

E. THE ALIEN LANDHOLDING ACT MENTIONED ABOVE IS THE MAIN POLICY STATEMENT FOR THIS COUNTRY'S MAJOR RESOURCE, LAND. OTHER RESOURCES, SUCH AS FORESTS, ARE REGULATED, PRINCIPALLY BY TAX MEASURES.

F. GOB ADMINISTRATIVE PRACTICES ARE BOTH SLOW AND POOR. THERE IS VERY LITTLE COMMUNICATION BETWEEN AGENCIES AND EVEN WITHIN AGENCIES.

THIS, COMBINED WITH THE LACK OF A PUBLISHED DEVELOPMENT POLICY, CAUSES GREAT FRUSTRATION AMONG POTENTIAL INVESTORS.

G. THE GOB HAS NO OWNERSHIP POLICIES.

H. THE ONLY AGGREGATE ECONOMIC POLICY THE GOB EXERCISES IS PRICE CONTROLS. THE GOVERNMENT SETS THE PRICE AT WHICH MERCHANTS MUST SELL ON A GREAT NUMBER OF ITEMS. THE POLICY COVERS ALL STAPLES, AUTOMOTIVE SPARE PARTS AND FOODSTUFFS. THE RESULT IS THAT SCARCITIES OFTEN EXIST AND THE ITEMS CONTROLLED, MANY OF WHICH COULD BE PRODUCED IN THE COUNTRY, BECOME PART OF THE IMPORT BILL. THIS POLICY HAS BEEN THE GREATEST SINGLE DISINCENTIVE TO AGRICULTURE, THE INDUSTRY WHICH INCIDENTALLY HAS THE BEST PROSPECTS IN BELIZE.

I. AGGREGATE ECONOMIC PERFORMANCE FOR THE PAST FOUR YEARS HAS BEEN POOR. THE GDP IS ABOUT DOLS 70 MILLION AND ALL GROWTH HAS BEEN INFLATIONARY, THE REAL GROWTH RATE BEING CLOSE TO ZERO. IMPORTS LIMITED OFFICIAL USE

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EXCEED EXPORTS BY ABOUT DOLS 15 MILLION A YEAR, AND WERE IT NOT FOR HIGH SUGAR PRICES THE FIVE FOLD INCREASE IN PETROLEUM PRICES DURING THE PAST YEAR COULD HAVE CRIPPLED THE ECONOMY.

J. THERE ARE NO POLICIES WHICH FAVOR DEVELOPMENT OF CERTAIN INDUSTRIES. HOWEVER, AGRICULTURE IS OBVIOUSLY ONE AREA WHERE BELIZE COULD BECOME A MAJOR PRODUCER, ESPECIALLY ON TROPICAL AGRICULTURE AND CATTLE. ALSO THE GOB HAS DISCOURAGED ALMOST ALL TOURISM PROJECTS

WHICH WOULD HAVE CREATED ENCLAVES, SUCH AS THOSE IN JAMAICA AND BARBADOS.

K. THE GOB ENCOURAGES THE LOCAL PROCUREMENT OF RAW MATERIALS WHEREVER POSSIBLE, BUT BECAUSE PRACTICALLY NONE ARE AVAILABLE, THE INVESTOR USUALLY HAS LITTLE TROUBLE IN OBTAINING PERMISSION TO IMPORT THEM. MATERIALS PROCUREMENT IS USUALLY ONE OF THE ITEMS NEGOTIATED DURING THE PROCEEDINGS FOR A DEVELOPMENT CONCESSION.

L. THE LOCAL LABOR UNION MOVEMENT IS IN ITS INFANCY. HOWEVER, A DEVELOPMENT CONCESSION WILL USUALLY SPECIFY HOW MANY BELIZEANS HAVE TO BE EMPLOYED AND AT WHAT LEVELS. THE GOB RECOGNIZES THAT MANY SKILLS ARE NOT AVAILABLE HERE, ESPECIALLY MANAGEMENT SKILLS, SO THE INVESTOR NORMALLY HAS LITTLE TROUBLE BRINGING IN KEY PERSONNEL.

M. THE ENTIRE CAPITAL SIDE OF THE GOB BUDGET IS BRITISH GRANT AID. BECAUSE THIS AID IS TIED, MOST GOB PROCUREMENT MUST BE DONE IN THE UNITED KINGDOM.

N. THERE ARE NO EXPORT GOALS FOR INVESTORS.

O. THE GOB DOES NOT HAVE ANY POLICIES WHICH WOULD FIX PRICES, TERMS OR CONDITIONS TO BE OBSERVED IN DEALING WITH OTHER ENTERPRISES IN THE PURCHASE, SALE OR LEASE OF PRODUCTS.

P. THE CONSULATE GENERAL HAS ONLY HEARD OF ONE OCCASION WHEN U. S. ANTI-TRUST LAWS HAVE AFFECTED AN INVESTMENT HERE. THIS CONCERNED A SHARE IN A LOCAL RICE FARM. THE U. S. OWNER OF THE SHARE WAS TAKEN OVER BY ANOTHER U. S. COMPANY, AND THE NEW OWNER HAD TO SELL ITS SHARE BECAUSE OF CONFLICT WITH U. S. ANTI-TRUST LAWS. WE DO NOT KNOW ALL THE DETAILS, BUT THE MANAGEMENT OF THE FARM ALLEGES LIMITED OFFICIAL USE

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THE ABOVE TO BE THE CASE. WE HAVE NEVER HEARD OF ANY PROBLEMS WITH BELIZEAN ANTI-TRUST LAWS.

Q. OPIC POLITICAL RISK INSURANCE IS AVAILABLE IN BELIZE, AND NOW COVERS ABOUT DOLS 1.3 MILLION OF INVESTMENT.

R. THERE ARE NO FCN, AER OR DOUBLE TAXATION TREATIES BETWEEN BELIZE AND THE U. S.

S. WE ARE NOT AWARE OF ANY PROBLEMS CREATED BY EXTRATERRITORIAL APPLICATION OF HOST COUNTRY OR U. S. LAWS.

T. WE KNOW OF NO CASE OF EXPROPRIATION WITHOUT COMPENSATION IN BELIZE.

U. WE KNOW OF NO LAWS OR POLICIES AFFECTING PATENT, ROYALTY,
TECHNOLOGYHOR ANY OTHER LAW AFFECTING TECHNOLOGY TRANSFER IN BELIZE.

2. FOREIGN INVESTMENT IN BELIZE IS HAPPENING AT A RATE MUCH LOWER
THAN MIGHT BE THE CASE. THE PRINCIPAL REASON FOR THIS IS THE EXTRA-
ORDINARY DIFFICULTY OF DOING ANYTHING IN THIS PRIMITIVE LAND. INFRA-
STRUCTURE IS LACKING IN MANY CASES. TRANSPORTATION IS BOTH DIFFICULT
AND EXPENSIVE. HUMAN RESOURCES AT ALL LEVELS ARE EITHER POOR OR NON-
EXISTENT. FINALLY, THE GOB ITSELF, EVEN WITH ITS EQUIVOCAL ATTITUDE
TOWARD FOREIGN INVESTMENT, IS FINANCIALLY UNABLE TO DO MUCH MORE FOR
A POTENTIAL INVESTOR THAN GIVE HIM A FEW TAX ADVANTAGES. WE ESTIMATE
THAT U. S. DIRECT INVESTMENT IN BELIZE, IN SPITE OF THE OBSTACLES,
BREAKS DOWN AS FOLLOWS:

1. AGRICULTURE & AGRIBUSINESS DOLS 8 MILLION

2. FORESTRY PRODUCTS .7 MILLION

3. TOURISM 1 MILLION

TOTAL 9.7 MILLION

WE ESTIMATE THAT TOTAL DIRECT FOREIGN INVESTMENT IS ABOUT DOLS 25 MIL
LION,
DOLS 10 MILLION OF WHICH IS REPRESENTYZFZWSJHSUGAR MILLS OWNED BY
BELIZE SUGAR INDUSTRIES, A WHOLLY OWNED SUBSIDIARY OF A BRITISH COMPA
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NY,
TATE & LYLE. A JAMAICAN COMPANY, SHARP BROTHERS, LTD. OWNS A
CITRUS PROCESSING PLANT WORTH ABOUT DOLS 5 MILLION.

3. WE HAVE NO IDEA HOW MUCH BELIZEAN INVESTMENT THERE IS IN THE
U. S. WE HAVE IDENTIFIED ABOUT DOLS 1.1 MILLION OF INVESTMENT, AND WE
ESTIMATE THAT THERE MAY WELL BE AN ADDITIONAL DOLS 2-3 MILLION ABOUT
WHICH WE KNOW NOTHING.

4. DECLASSIFY UPON RECEIPT.

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Message Attributes

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